

The emergence of agricultural NBFCs in India

Agricultural marketing, warehousing firms now providing financial services too to farmers as they seek to expand

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A new breed of non-banking financial companies (NBFCs) is emerging in India: Agricultural NBFCs.

As agricultural marketing and warehousing companies look to expand their businesses, a number of them are seeking to provide financial services to farmers and farm-related businesses, many of whom would be existing clients.

Agricultural warehousing companies such as Star Agri-warehousing and Collateral Management Ltd, Shree Shubham Logistics Ltd and Sohan Lal Commodity Management Pvt. Ltd have already started such NBFCs, while National Bulk Handling Corp. and National Collateral Management Services Ltd are exploring the option.

Automobile companies were the first to try this model, starting dedicated vehicle finance arms such as Mahindra Finance Ltd, Tata Motors Finance Ltd and Bajaj Auto Finance Ltd.

Some of these businesses initially started as captive finance arms intended to provide finances to their own clients but

later expanded into standalone businesses.

The intent of agricultural NBFCs is similar—providing finance across the value chain in the farm sector, which in turn, will help the core warehousing business.

“We have already started an agri-NBFC—StarAgriFinance—focused on farmers and agriculture related entrepreneurs,” said Amith Agarwal, director at Star Agriwarehousing, a firm focused on agri-business solutions. In April last year, Temasek Holdings and IDFC Private Equity invested Rs400 crore in the company, part of which will be invested in the NBFC.

StarAgri Finance, a wholly-owned subsidiary of Star Agri-warehousing, acquired **Raylight Leasing and Finance Ltd**, which was registered with the Reserve Bank of India (RBI) as an NBFC. It has plans to offer finance against agricultural assets such as land and crops, along with loans for agri-equipment, machinery and tools and working capital.

“We have a portfolio of ₹100 crore which we wanted to make ₹2,000 crore in next three to four years. We have invested ₹150 crore as capital for this business,” Agarwal said.

Agarwal said the NBFC business will compliment Star Agri-warehousing as the company has plans to more than double its warehousing capacity from 16 lakh tonnes to 50 lakh tonnes in the next three to four years.

StarAgriFinance has hired



Farm financing: Agri-financing helps the farmer and all stakeholders of the agriculture value chain to store the harvest safely and also get the finance against their collateral.

former **Religare Finvest Ltd** president and chief operating officer Gurinder Singh Sehmbey as its chief executive officer.

“We know the ground level reality. We understand that access to affordable finance to enhance farm productivity and agriculture infrastructure can change the financial future of a farmer household,” Agarwal said.

Sohan Lal Commodity Management, whose investors include Nexus Venture Partners and ICICI Bank, has similar

plans.

Having commercialized its agri-NBFC Kissandhan in March 2014, the company is now offering agri-financing solutions to farmers, traders, small agro processing units and joint liability groups.

Sandeep Sabharwal, chief executive officer at Sohan Lal Commodity said agri-financing was a logical step for them.

“The idea was to provide a one-stop solution to the end user with a diversified portfolio of services ranging from ware-

house management, agriculture financing, collateral management to procurement. It helps the farmer and all stakeholders of the agriculture value chain to store the harvest safely and also get the finance against his collateral,” Sabharwal said.

Loan sizes for Sohan Lal Commodity have ranged from ₹42 lakh to ₹5 crore, at an average lending rate of 14-15%.

In first eight months of operations till March 2015, through Kissandhan, the company has disbursed more than ₹130 crore

of loans.

According to Vibha Batra, senior vice-president at rating firm **Icra Ltd**, lending to small farmers is a business where banks are traditionally active as it is part of their social objectives. However, NBFCs could create a niche in lending to farm-related businesses.

“Specialized entities like these could create niches for themselves in other parts of agricultural lending, provided they manage their credit cost well. As of now, some rice mills and sugar companies already lend to farmers. With companies choosing the NBFC route, more and more such activities will come under regulatory purview and there can be better monitoring of these activities,” Batra said.

National Bulk Handling Corp. Pvt. Ltd is exploring a similar strategy. In an emailed response, the firm said it is exploring the launch of an NBFC as a logical extension of its core business. The company declined to give further details.

The company, formerly a subsidiary of **Financial Technologies India Ltd** (FTIL), is now owned by India Value Fund Advisors.

National Collateral Management Services, whose investors include IFFCO, Rabo Equity and the World Bank’s International Finance Corp. (IFC), is also exploring the idea of an NBFC, said a person familiar the plans. The company declined to offer comments.

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